

Overview of Governor Locke's 2004 Supplemental Operating and Capital Budget Proposals

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OVERVIEW

For the first time in four years, Washington State does not enter a legislative session facing a significant budget problem. The 2003-05 biennial budget remains balanced and based on the November 2003 revenue forecast, the general fund estimated reserve is more than \$500 million. Nevertheless, increased public school enrollments, human services caseloads and a challenging summer fire season have resulted in a need to make adjustments to the underlying biennial budget spending plan.

SUMMARY OF GOVERNOR LOCKE'S 2004 SUPPLEMENTAL BUDGET PROPOSAL

The Governor's \$193 million recommended 2004 Supplemental Budget proposal can be divided into four parts:

- **Operating Budget – Policy Changes (\$112 million)**
- **Operating Budget – Maintenance Changes (\$82 million - net changes)**
- **Tax Reductions (\$75 million)**
- **Capital Budget (\$199 million all sources)**

BALANCE SHEET

	\$ millions
General Fund Balance, November Revenue Forecast	\$ 544
Resource Changes	
Revise estimate of savings from enhanced federal match	\$ (38)
Tax reductions	\$ (75)
Transfer balances from other Accounts	\$ 42
Total Resources	\$ 473
Appropriation Changes	
Caseload, workload and other current law changes*	\$ 190
Enhancements	\$ 112
Total Supplemental	\$ 301
<i>* Excluded Federal FMAP savings. Net Supplemental is \$192.7 million</i>	
General Fund Balance after supplemental changes	\$ 172

I. POLICY CHANGES

HIGHER EDUCATION

- \$10 million for high demand enrollments are to be allocated by the Higher Education Coordination Board; \$10 million for worker retaining enrollments are allocated to the State Board for Community and Technical Colleges (\$20 million GF-State)
- 2,500 general enrollments are funded; \$5 million is allocated to the State Board for 1,389 enrollments; the remaining enrollments are allocated to the 4-year colleges proportional to current total appropriations (\$10 million GF-State)
- Promise scholarship award amounts are increased to 80% of community college tuition (\$6 million GF-S)
- Research grants increases at UW and WSU, for \$1.5 million each, will match federal grants (\$3 million GF-S)

PUBLIC SCHOOLS

- Funding for the Learning Assistance Program is increased by approximately 14 percent in the 2004-05 school year. The additional funding is directed at school districts with high poverty. (\$7.1 million GF-S)
- Provides funding for high school WASL retakes, development of alternative assessments and/or and appeals procedures, review of the alignment between assessments and learning standards, and review of the cut scores. (\$1.2 million GF-S)

HEMOCARE WORKER CONTRACT

- As negotiated with the Service Employees' International Union, beginning in October 2003, the state would pay for a 50 cent increase in worker wages and for workers' compensation coverage. Beginning January 2004, the state would pay \$400 per month for health insurance coverage of persons working half-time or more (\$24.0 million GF-S).

STATE EMPLOYEE HEALTH BENEFITS

- \$24 million in surplus funds are used to reduce state contributions to employee health benefits from \$592/month to \$584/month in FY05 and average employee premiums from \$108/month to \$100/month in CY05 (\$4.7 million GF-State)

DSHS MEDICAL ASSISTANCE

- Families with incomes below 150% of the federal poverty level would continue to receive Medicaid coverage for their children at no cost, rather than paying a \$10 premium per child per month as currently budgeted. Those with incomes between 150-200% of poverty would pay \$10 per month, rather than \$20; and those with incomes between 200-250% of poverty would pay \$15, rather than \$25. (\$23.4 million Health Services Account).
- Medicaid payment rates for labor and delivery services would be increased (\$10 million GF-S).
- Additional staff are added to (1) increase the number of multi-source drug classes which are priced closer to actual in-state acquisition costs, rather than upon outdated national reports; and (2) document and secure manufacturer rebates for which the state is eligible. (\$5.0 million GF-S savings).

DSHS LONG-TERM CARE

- 10% increase in funding for Area Agency on Aging case management services (\$1.7 million GF-S)
- Up to 200 “medically needy” individuals whose incomes are too high to qualify for such services under the current COPES program would receive in-home care under a special pilot program (\$1.7 million GF-S)
- Pursuant to a state court ruling, individual homecare workers thought to have engaged in abuse, neglect, or exploitation of a vulnerable adult will have the opportunity to contest the findings at an independent administrative hearing before termination of their state contract. (\$1.3 million GF-S)

DSHS DEVELOPMENTAL DISABILITIES

- 49 additional DD community protection placements (\$2.1 million GF-S)
- Additional residential DD placements for 42 youth aging out of Children's in 03-05 (\$2.1 million GF-S)
- One of three phases to implement Comprehensive Assessment Tool for DD services (\$1.2 million GF-S)
- Additional services for 69 DD waiver clients (\$3.2 million GF-S)

DSHS MENTAL HEALTH

- Funding is provided to increase the hourly prosecution and defense attorney payment rate for the civil commitment of sexually violent predators, due to concerns over attorney complaints and potential court orders. (\$1.8 million General-Fund State)

DEPARTMENT OF CORRECTIONS

- Savings is generated by OFM proposed legislation to retroactively apply the recently enacted drug sentencing grid, effective July 1, 2003, to inmates currently in prison. As a result of the shortened sentences, the estimated reduction in average monthly population is 489 inmates for fiscal year 2005. (\$16.8 million General Fund-State Savings)
- Savings is generated by OFM proposed legislation to extend the felony supervision changes enacted in Senate Bill 5990 (Chapter 379, Laws of 2003,) to low-risk gross misdemeanants. An estimated 2,026 low-risk misdemeanor cases would no longer be supervised. (\$1.5 million General Fund-State Savings)

NATURAL RESOURCES

- Fire suppression costs for the 2003 fire season are projected to exceed the amount appropriated. The appropriation was based on a ten year average. (\$30 million GF-S)
- Enhanced funding for planning and management of water resources in watersheds is requested. The proposal includes hiring "Water Masters" in eight additional watersheds, and funding planning grants for additional watersheds. (\$3 million GF-S)
- In addition to the proposed operating budget enhancement for water, \$16 million is requested in the capital budget for water related projects.

INSURANCE COMMISSIONER – MEDICAL MALPRACTICE

- A new Patient Compensation Account is capitalized to provide payment for medical malpractice awards in excess of mandate coverage (\$10 million Health Services Account)

COMMUNITY TRADE & ECONOMIC DEVELOPMENT

- One-time funds are provided to support major economic development projects (\$5.3 million General Fund - State)

II. MAINTENANCE CHANGES

REVISED FMAP

Congress provided one time federal fiscal relief through an increase in the federal matching rate for Medicaid (\$108.7 million General Fund – State Savings)

DEPARTMENT OF CORRECTIONS

A total of \$76 million General Fund-State is provided for increases in inmate and supervision caseloads:

- \$40 million to cover an average monthly population of 700 more inmates than budgeted.
- \$35 million to cover an average of 5,800 more offenders on active supervision in the community than budgeted.

A total of \$20.2 million General Fund-State is provided for various items, including:

- \$6.2 million for increases in medical inflation and Hepatitis C treatment costs.
- \$4.8 million for rate increases for industrial insurance, utilities, and Department of Information systems.
- \$4.6 million to cover a reduction in federal funds that assist states in paying the incarceration costs of aliens (State Criminal Alien Assistance Program).
- \$4.4 million to provide additional community corrections staff to supervise offenders on the Drug Offender Sentencing Alternative and to maintain offender records.

DSHS MEDICAL ASSISTANCE

- Medical costs per eligible recipient are projected to increase by only about 2.3 per cent per year, rather than by over 5 per cent per year as currently budgeted. (\$29.3 million GF-S and \$8.8 million Health Services Account savings).
- Through the end of the current biennium, the federal government will match medical expenditures on children with incomes between 150-200 percent of poverty at the 65 percent State Children's Health Insurance match rate, rather than at the standard 50 percent Medicaid match rate (\$22.6 million Health Services Account savings).

DSHS LONG-TERM CARE

- Nursing home rates are projected to increase by an average of 3.0 percent, rather than by the 4.9 percent originally projected (\$11.3 million GF-S savings).

ECONOMIC SERVICES

- To avoid the loss of \$3 billion in federal Medicaid matching funds, the Governor's budget requests \$38.6 million to meet the federal Maintenance of Effort (MOE) spending requirement for Washington's State Supplemental Payment (SSP) program. The additional funding covers SSP shortfalls in calendar year 2002, 2003, and 2004. The shortfall is due to a retroactive disapproval of the state's plan for meeting the required funding level. (\$38.6 million General Fund - State)
- The Governor's budget requests \$25.8 million to reflect a forecasted 14% increase in the GAU caseload. (\$25.8 million General Fund - State)
- Additional funds requested for the Refugee Cash Assistance, Child Support Recoveries, Consolidated Emergency Assistance Program, Diversion Cash Assistance and Temporary Assistance for Needy Families Assistance. (\$17.9 million 001-2- Refugee, 001-A – Title IV-D, 001-D – Temporary Assistance for Needy Families)

MENTAL HEALTH- SPECIAL COMMITMENT PROGRAM

- Funding is increased to cover additional staff positions needed to run the new Special Commitment Center facility. The previous facility used some Department of Corrections staffing and services, and will not longer be able to do so. Workload is somewhat lower than expected. (\$3.3 million General-Fund State)

COMMUNITY COLLEGES

- Health benefits are funded during the summer for part-time faculty to comply with the Mader v. Heath Care Authority litigation (\$3.7 million GF-S)

PUBLIC SCHOOLS

- Public school enrollment is higher than anticipated by 1,547 students in the 2003-04 school year and 4,556 students in 2004-05 school year. Additionally, workload in some other K-12 programs is up from earlier projections. (\$20.2 million GF-S)
- Payments for school bus replacement are approximately 40 percent higher than projected in the original budget. (\$12.4 million GF-S)
- Due to enrollment and school bus ridership increases, reimbursement for student transportation is up by approximately 4 percent from original projections. (\$10.9 million GF-S)
- Enrollment in transitional bilingual programs is higher than originally forecasted by 2,112 students in the 2003-04 school year and 3,005 students in 2004-05 school year. (\$3.2 million GF-S)

III. REVENUE PROPOSAL

Research and Development Tax Incentive Package: \$58.9 million decrease

- Extend the hi-tech B&O tax credit (\$10.7 million decrease in FY 05)
- Extend the hi-tech sales and use tax deferral/exemption program and include state research universities in the program (\$47.5 million decrease in FY 04-05)
- B&O tax exemption for federal grants (SBIR and STTR) to small businesses (\$1.4 million decrease in FY 04-05)

Economic Development Tax Incentive Package: \$15.4 million decrease

- Extend the B&O tax credit for software and credit for help desk services in rural counties (\$0.5 million decrease in FY 04-05)
- Extend rural county sales tax exemption (\$14.9 million decrease in FY 05)

IV. CAPITAL BUDGET

The Governor's supplemental capital budget totals \$199 million dollars. Bond funds account for \$171 million of this total: \$80 million from a proposed bond bill (and assorted savings) and \$91 million for higher education from previously approved Gardner/Evans resources.

HIGHER EDUCATION

Additional projects are proposed totaling \$98 million and including \$91 million in Gardner-Evans Bonds. The amounts, by institution, include:

- University of Washington: \$29.6 million; major projects include \$8.4 million for Campus Communications Infrastructure, \$8.5 million for Emergency Power Expansion (Phase II) and \$7.3 million to match federal funds for an Infectious Disease Laboratory and Guthrie Hall Renovation
- Washington State University: \$16 million; major projects include \$6.6 million for the Spokane Academic Center, \$3.4 million for Wastewater Reclamation and \$6 million for WSUNet.
- Central Washington University: \$3.1 million; major project includes \$2 million for the Des Moines Higher Education Center
- Eastern Washington University: \$6 million for Senior Hall Renovation
- Western Washington University: \$4.9 million for Bond Hall Renovation (funded with \$4 million in savings from the Communications Facility)
- The Evergreen State College: \$3.1 million for Lab 1 First Floor Renovation; funding for minor works is reduced to match revenue
- Community and Technical Colleges: \$34.8 million; major projects include: \$19.4 million for a new instruction building at Grays Harbor College, and \$14.3 million to replace the welding and auto collision shop at Bellingham Technical College

DEPARTMENT OF CORRECTIONS: COYOTE RIDGE CORRECTIONAL FACILITY

- Funding is provided for design and initial site work to add 768 medium security beds at the Coyote Ridge Correctional Center (CRCC) in Connell. (\$46 million). 2005-07 funding to complete the beds is estimated at \$90 million, for a total cost of \$136 million.
- During FY 05, the average population of inmates is forecasted to be over 900 more than budgeted levels. This unexpected increase in inmate population has accelerated the timing of the CRCC expansion, which was originally not anticipated until 2005-07 or later.

IMPROVE AND PROTECT INSTREAM FLOWS AND MANAGE WATER RESOURCES

- Funding is requested for projects to improve and protect instream flows in watersheds, improve water conveyance, irrigation efficiency and wastewater reclamation. (\$16 million)
- In addition to these capital projects, \$3 million (GF-S) is requested in the operating budget for improving the protection and management of water resources.